

Message Text

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ACTION EB-07

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INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 3372

INFO AMEMBASSY MOSCOW

USINT BAGHDAD

C O N F I D E N T I A L NEW DELHI 6895

E. O. 11652: NA

TAGS: ETRD ENRG IN UR

SUBJECT: SOVIET CRUDE OIL SALES TO INDIA

REF: (A) NEW DELHI 6115, (B) BAGHDAD 94

1. ENTERPRISING INDIAN JOURNALIST HAS REPORTED AND GOI OFFICIAL HAS CONFIRMED THAT "SOVIET OIL" WHICH USSR WILL SUPPLY TO INDIA UNDER RECENTLY SIGNED AMENDMENT TO 1977 TRADE PLAN WILL COME FROM IRAQ.

2. ACCORDING TO PRESS STORY, SOVIETS HAVE INSISTED ON CHARGING IRAQI PRICE FOR THE OIL (QUOTED AS \$12.66) RATHER THAN SAUDI OR "WEIGHTED AVERAGE" PRICE THAT INDIANS ASKED. ON THE OTHER HAND, INDIANS WON SOVIET AGREEMENT TO SHIP ENTIRE PURCHASE IN INDIAN TANKERS RATHER THAN 50-50 SPLIT APPLIED TO OTHER TRADE BETWEEN THE TWO COUNTRIES. WHILE WE ARE UNABLE TO CONFIRM THESE DETAILS FROM OFFICIAL SOURCE, REPORT IS PROBABLY ACCURATE.

3. GOI OFFICIAL NOTED THAT FACT THAT OIL NOW COMING FROM IRAQ DID NOT UNDERMINE BENEFIT OF DIVERSIFICATION WHICH GOI
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ACHIEVED THROUGH SOVIET OFFER. GOI'S ATTITUDE WAS THE OIL WAS SOVIET'S EVEN IF ACQUIRED IN IRAQ; SHOULD SOVIET UNION BE UNABLE TO DRAW ON IRAQI SOURCES FOR FUTURE SHIPMENTS, IT WOULD BE OBLIGATED TO PROVIDE OIL ORIGINATING ELSEWHERE.

4. OFFICIAL NOTED THAT OIL DEAL SIGNIFIED MORE THAN ONE-TIME TWENTY PERCENT INCREASE IN INDO-SOVIET TRADE. FIRST, VOLUME OF

OIL WILL RISE 50 PERCENT TO 1.5 MILLION TONS IN EACH OF NEXT THREE YEARS. SECOND, RUPEES 800 MILLION INDICATED AS VALUE OF OIL THIS YEAR IS "CURRENT PRICE (I.E., SOVIETS WILL RAISE PRICE IN FUTURE TO CONFORM TO OPEC LEVELS).

5. ACCORDING TO THIS OFFICIAL, GOI INTENDS TO CONTINUE TO USE EXPANDED EXPORTS OF STEEL AND IRON TO "PAY" FOR OIL UNDER BALANCED TRADE PROVISIONS OF RUPEE PAYMENTS AGREEMENT. IT CONSIDERED THIS TO BE AN ADVANTAGEOUS USE OF CURRENT SURPLUS CAPACITY IN THESE SECTORS. BEGINNING IN 1978, HOWEVER, OIL DEAL WILL NO LONGER BE IDENTIFIABLE, SEGREGATED BARTER ARRANGEMENT, BUT WILL BE INCORPORATED INTO REGULAR ANNUAL PLANS. IT WOULD HAVE BEEN INCLUDED IN 1977 PLAN, ACCORDING TO OFFICIAL, BUT "IT CAME UP TOO LATE."

6. CORRECT FIGURES FOR 1977 TRADE PLAN TARGET IS, ACCORDING TO THIS OFFICIAL, ABOUT RS. 10.6 BILLION; THAT, IS, ABOUT RS 9 BILLION FOR TRADE PLAN AS SIGNED IN DECEMBER PLUS ABOUT RS. 1.6 BILLION FOR RECENT AMENDMENT.

7. COMMENT: WHILE SOVIETS HAVE BEEN HARDNOSED ON PRICE-- IN KEEPING WITH TRADITION-- INDIA STILL HAS BENEFITED FROM SOVIET OFFER OF OIL IN TERMS OF UTILIZATIONS OF STEEL AND IRON CAPACITY AS WELL AS MERGINALLY FROM DIVERSIFICATION OF SUPPLY. SHIPPING ARRANGEMENT IS NOT NET BENEFIT SINCE DIRECT PURCHASE FROM IRAQ WOULD HAVE BEEN IMPORTED ON INDIAN TANKERS IN ANY CASE.
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